



**PCF BANK**

Presentation

Interim Results

June 2020

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*PCF Group plc is the AIM listed parent of specialist bank, PCF Bank*

PCF Bank is a well-established, profitable and growing financial services business which has been transformed by gaining a banking licence in 2017

*Proven operational resilience and a focus on protecting our staff, customers and capital in uncertain times*

# Overview

1

Lending to

- Business Asset Finance
- Consumer Motor Finance
- Broadcast and Media
- Property Finance

Predominately broker introduced

2

£401m asset backed portfolio

£340m of retail deposits and over 7,800 savings customers

Total customer base > 28,700

3

80% of originations are in our prime credit grades

Diversified portfolio with a wide spread of risk

134 staff. Offices in City of London & Berkshire

4

Experienced management

Limiting the operational impact of Covid-19

Prudent operating model to deliver sustainable growth

5

KPI's reflect Covid-19 effect

Net Interest Margin 6.8%

Return on Equity 6.6%

Return on Assets 1.4%

Impairment charge 1.7%

Cost to Income Ratio 52%

6

Total Capital Ratio of 17%

Headroom on Tier 2 capital facility

Strong Liquidity Coverage Ratio

# Operational Highlights

Six-months ended 31 March 2020

*“Strong portfolio growth ahead of UK lockdown”*

NEW BUSINESS ORIGINATIONS

▲ **26%**  
**£153m**

(2019: £121m)

PORTFOLIO GROWTH

▲ **18%**  
**£401m**

(Sept 2019: £339m)

RETAIL DEPOSITS

**7,800 customers**  
**£340m**

(Sept 2019: £267m)

- Diversified, asset backed lending portfolio
- ‘Open for Business’, demonstrating operational resilience
- 80% of new business originations are for prime customers
- Impairment charge of 1.7% (2019: 0.9%), including a £1.6m charge for expected Covid-19 effect
- Customer forbearance granted on £138 million of Group lending portfolio



# Financial Highlights

Six-months ended 31 March 2020

*“Underlying profits up by 27% excluding Covid-19 related impairment”*

PROFIT BEFORE TAX  
AFTER COVID-19 EFFECT

▼ **21%**  
£2.6m

(2019: £3.3m)

PROFIT BEFORE TAX  
BEFORE COVID-19 EFFECT

▲ **27%**  
£4.2m

(2019: £3.3m)

OPERATING INCOME

▲ **26%**  
£12.7m

(2019: £10.1m)

NET INTEREST MARGIN  
(NIM)

▼ **15%**  
6.8%

(2019: 8.0%)

COST-TO-INCOME

▼ **3%**  
52.4%

(2019: 54.3%)

RETURN ON ASSETS

▼ **48%**  
1.4%

(2019: 2.7%)

AVERAGE AFTER TAX  
RETURN ON EQUITY

▼ **40%**  
6.8%

(2019: 11.4%)

EARNINGS PER SHARE

▼ **33%**  
0.8p

(2019: 1.2p)



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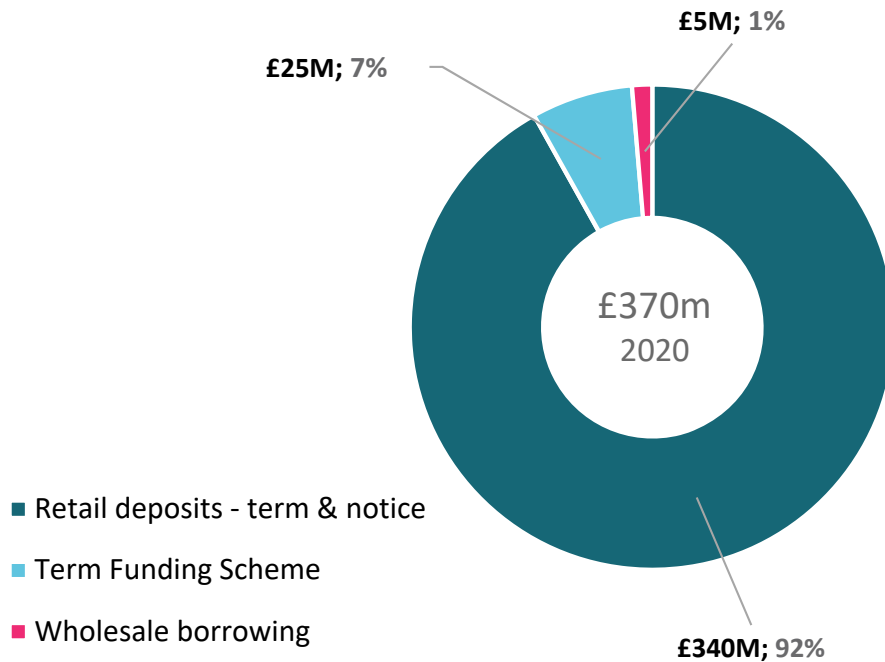
# IFRS 9 Loan Loss Impairment

- £3.1m impairment charge represents 170 bps cost of risk
  - £1.5m for portfolio performance (80bps)
  - £1.6m for Covid-19 effect (90bps)
  - Covid-19 aside, we have seen some portfolio stress particularly for SMEs
- IFRS9 areas of focus (particularly in light of Covid-19)
  - Significant worsening of base macro-economic curves in short to medium term
  - An increase to pessimistic weighting on economic scenarios
  - Post model adjustments where the model cannot predict outcomes
    - Forborne loans
    - Sector stress
    - Falling asset values
- IFRS 9 outcome
  - Increase in PDs due to outlook giving rise to a change in Staging from 1 to 2
  - Increase to LGD due to recovery rates dropping
- Expected Credit Loss provisions of 2.8% of lending book, representing a 27% increase against September 2019 balance sheet

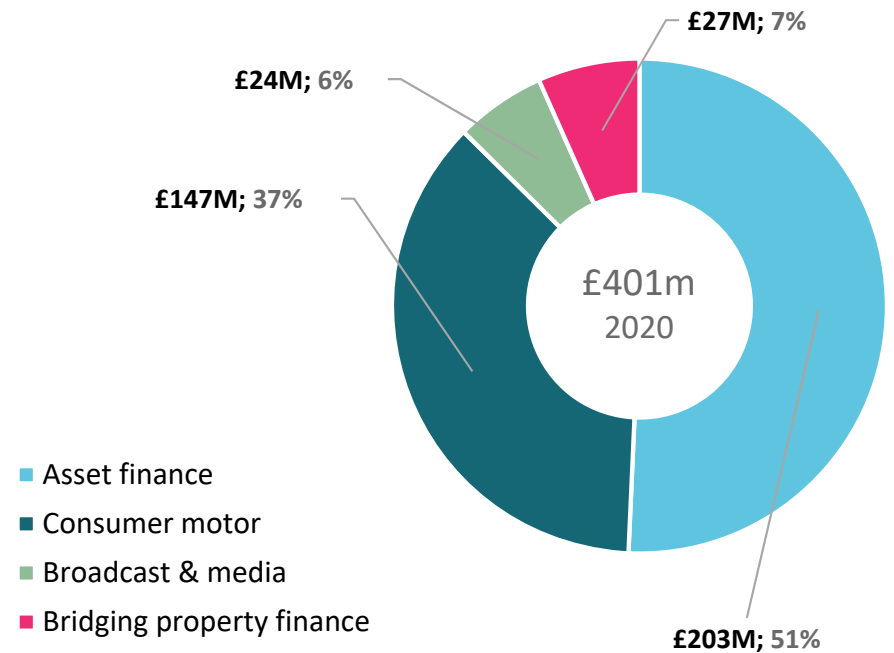
# PCF Bank



## Funding



## Lending





# Covid-19 Impact Assessment

## 1 OPERATIONS

- Business Continuity Plan implemented swiftly and effectively
- Open for business across all business segments
- Staff working remotely, 28 staff are furloughed

## 2 CAPITAL & LIQUIDITY

- Total Capital Ratio of 17%
- Headroom available on Tier 2 facility
- Liquidity Coverage Ratio of 1181%
- Access to retail deposit market and TFSME funding scheme

## 3 LENDING

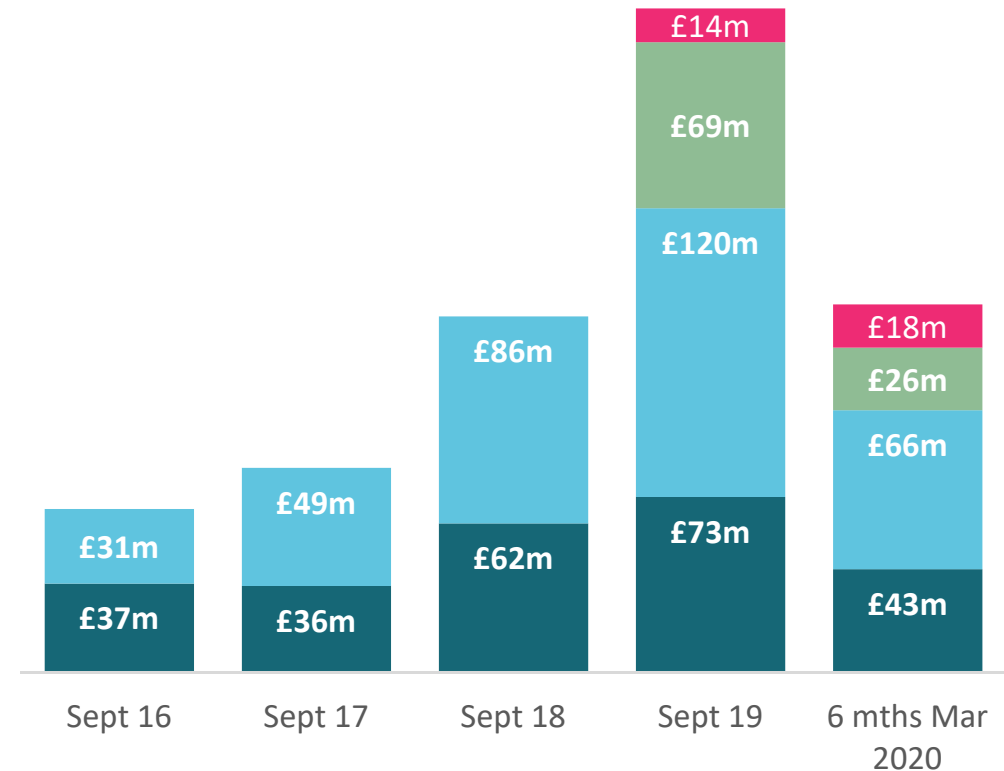
- 52% fall in demand for lending products
- Consumer Motor Finance and Bridging Finance segments are the more robust
- Tightening of lending terms
- Increase of credit quality target from 75% to 90% of business in prime credit grades

## 4 FORBEARANCE

- Business Finance £96m (47% of that portfolio)
- Consumer Motor Finance £32m (22%)
- Azure Finance £10m (62%)
- Bridging Finance £0m
- Experienced collections team acting in a FCA compliant manner

# New Business Origination

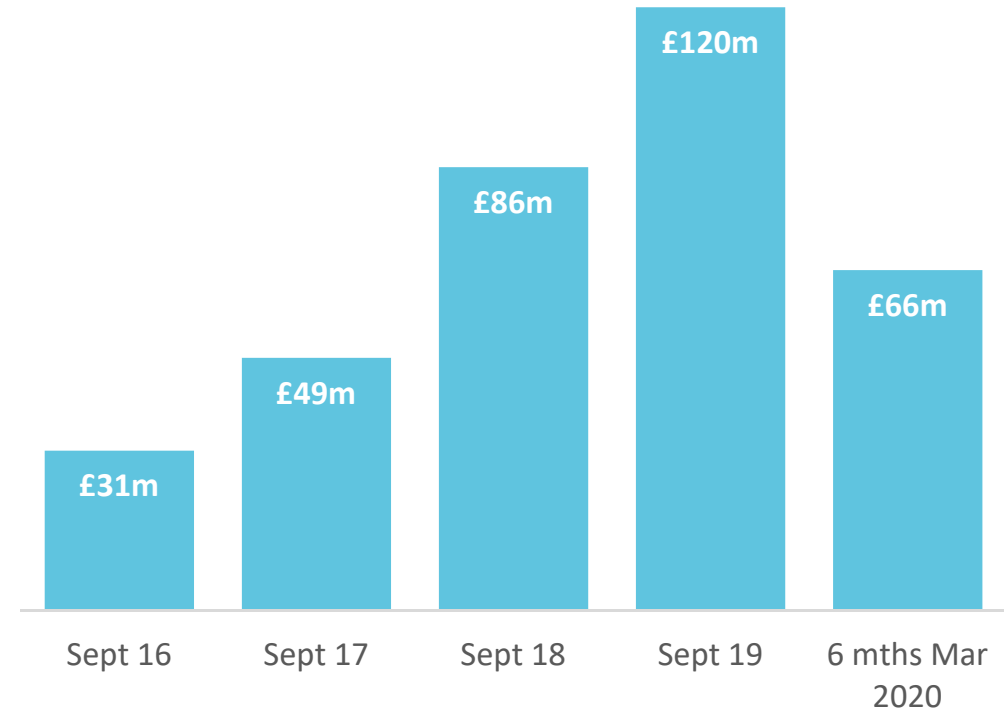
- Business Finance up 16% to £66 million
- Consumer Motor Finance up 48% to £43 million
- Azure Finance down 21% to £26 million
- Bridging Property Finance £18 million
- 80% in prime credit grades
- No PCPs. No residual positions on hire purchase and finance lease contracts



■ Consumer Finance Division     ■ Business Finance Division  
■ Azure     ■ Bridging

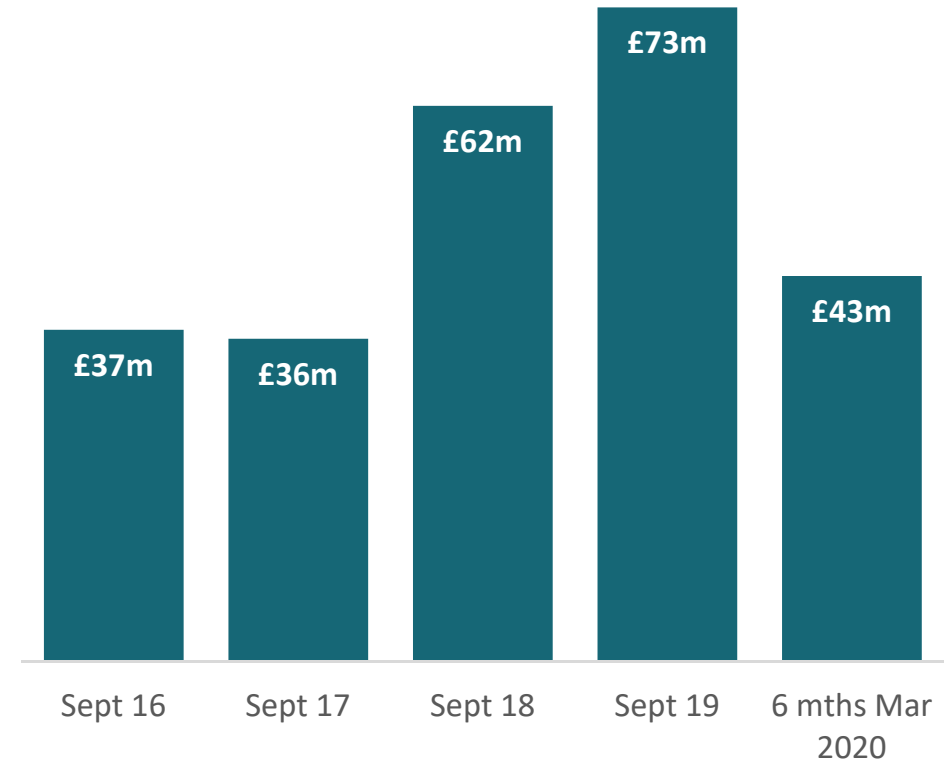
# Business Finance

- SME hire purchase / lease finance for vehicles, plant and equipment
- Market of £26bn in FYE September 2019, with a 7% growth rate (Finance & Leasing Association)
- New business volumes of £66m represent a market share of approx. 0.5%
- Average deal size of £48k
- £203m portfolio at 31 March 2020 with over 6,300 customers
- Increased network of broker intermediaries



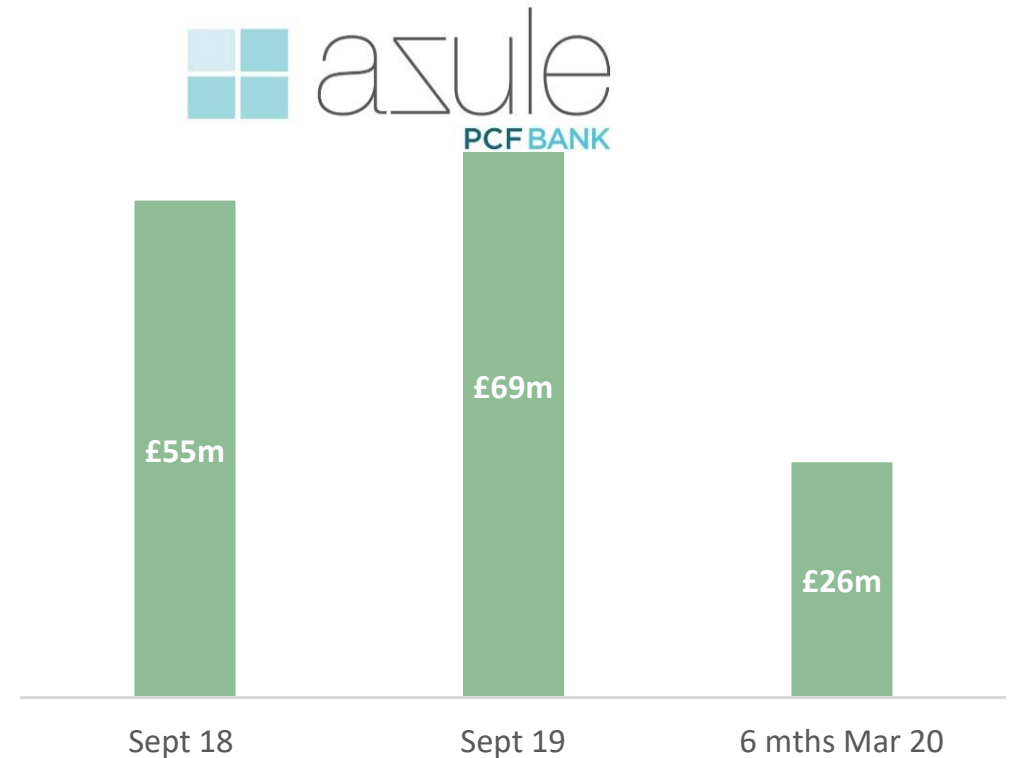
# Consumer Motor Finance

- New automated proposition to the prime market is a success
- Hire purchase finance for used cars and leisure vehicles
- Market of £18bn in FYE September 2019, with 6% growth rate (Finance & Leasing Association)
- New business volumes of £43m represent a market share of approx. 0.4%
- Average deal size of £18k
- Longer term finance for leisure vehicles (horseboxes, motorhomes and classic cars)
- £147m portfolio at 31 March 2020 with over 11,600 customers



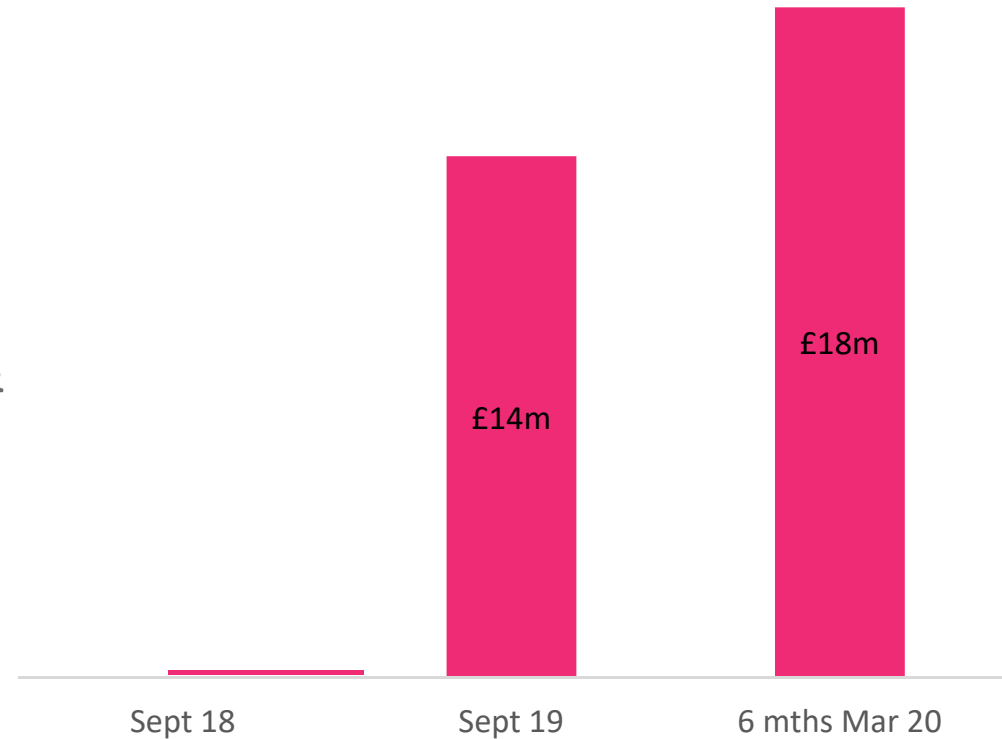
# Azule Finance

- SME hire purchase / lease finance for broadcast and media sector
- Direct manufacturer, distributor and customer relationships
- “Hybrid” model of writing business on balance sheet and introducing to third party banks for a fee
- New business volumes of £11m on balance sheet and £15m off balance sheet
- Average deal size of £55k
- £24m portfolio at 31 March 2020 with over 3,000 customers



# Bridging Property Finance

- Successful entry in market
- First charge property finance for bridging purposes to professional investors
- Market of £4bn in FYE September 2019 (EY & Mintel)
- Average deal size of £500k
- Average LTV of 63%, average term 10 months
- £27m portfolio at 31 March 2020



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# Achievements

*“Sustainable growth ahead of Covid-19 events”*

- Underlying profitability pre-Covid-19 effect was strong
- Continued growth in core businesses and increased lending into the prime segment
- Strong growth in our new bridging property finance division
- Successful launch of an automated consumer motor finance product
- Lower cost to income ratio while continuing to invest in people, systems and infrastructure



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# Strategic Initiatives

*“Current focus is on staff, customers and safeguarding assets”*

- Continued resilience to minimise Covid-19 impact
- Open for business across all business lines, tightening of credit terms
- Develop a market leading portal for SME lending
- Protect capital base
- Optimise liquidity and funding cost through TFSME scheme
- Continue to invest in technology to prepare for the future and deliver efficiencies
- Take advantage of market opportunity when activity picks back up
  - we have proved the prime proposition in consumer motor finance
  - we have increased our presence in bridging property market
  - Covid-19 shake out will mean fewer competitors and the possibility for diversification or consolidation

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# Investment Case

*“A resilient operating model provides confidence for now and the future”*

- Powered by the banking licence, investment in technology is underpinning portfolio growth, service levels and efficiencies
- £69m of future operating income already on the balance sheet provides certainty of earnings
- A management team with over 25 years’ experience, over several credit cycles, understands the need for prudent underwriting and effective collection techniques as we manage the portfolio through the cycle
- A financial services stock that focusses on specialist lending, not the overly competitive markets of residential mortgage and BTL
- Free of legacy issues
- Qualifies for IHT relief and is on an attractive valuation
- A profitable business model and sustainable growth due to:
  - our small market share
  - diversified income streams
  - the quality of the portfolio
  - access to the retail deposit market; and
  - operational gearing

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# Summary

- Operating model has proved resilient, limiting where possible Covid-19 effect
- Strong portfolio growth ahead of pandemic
- Results orientated business with a cautious risk appetite
- Successful track record through previous credit cycles
- Strong capital and liquidity position
- Track record of M&A and executing diversification strategy

*“PCF Bank will have a substantial opportunity to grow its business and shareholder value in the coming years”*



**PCF BANK**

Appendices

# Income Statement

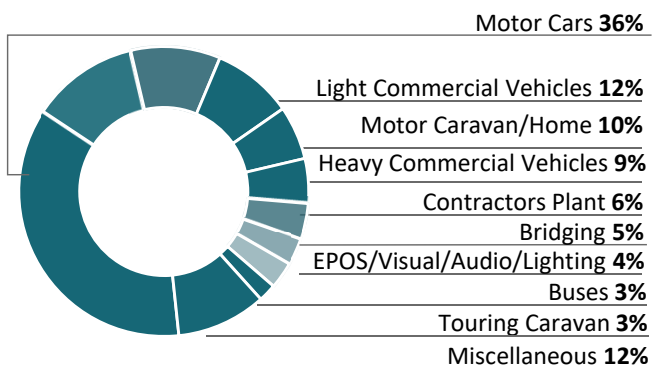
(£000's)	6 months ended 31 March 2020	6 months ended 31 March 2019	12 months ended 30 September 2019	Comments
<i>Interest income and similar income</i>	20,364	16,248	34,499	
<i>Interest Expense and similar income</i>	(7,717)	(6,230)	(12,884)	
<b>Net interest income</b>	<b>12,647</b>	<b>10,018</b>	<b>21,615</b>	NIM reducing due to 80% of new business in prime
<i>NIM %</i>	<i>6.8%</i>	<i>8.1%</i>	<i>7.8%</i>	
<i>Broker commission income</i>	410	394	1,023	Azule commission income
<i>Other Fees and commission income</i>	480	211	792	
<i>Fees and commission expense</i>	(813)	(501)	(1,154)	
<b>Net fee and commission income /(expense)</b>	<b>77</b>	<b>104</b>	<b>661</b>	
<b>Net operating income</b>	<b>12,724</b>	<b>10,122</b>	<b>22,276</b>	
Net loss on financial instruments at fair value through P&L	(25)	-	(63)	Increased expense as we further build for a bigger business
Administration expenses	(7,001)	(5,707)	(12,020)	
Impairment losses on financial assets	(3,146)	(1,164)	(2,175)	
<b>Profit before tax</b>	<b>2,552</b>	<b>3,251</b>	<b>8,018</b>	
Income tax expense	(509)	(658)	(1,624)	
<b>Profit after tax</b>	<b>2,043</b>	<b>2,593</b>	<b>6,394</b>	
<b>Earnings per share – basic &amp; diluted</b>	<b>0.8p</b>	<b>1.2p</b>	<b>2.7p</b>	
<b>Annualised ROA</b>	<b>1.4%</b>	<b>2.6%</b>	<b>2.9%</b>	
<b>Average assets employed</b>	<b>371,557</b>	<b>247,508</b>	<b>275,601</b>	

# Balance Sheet

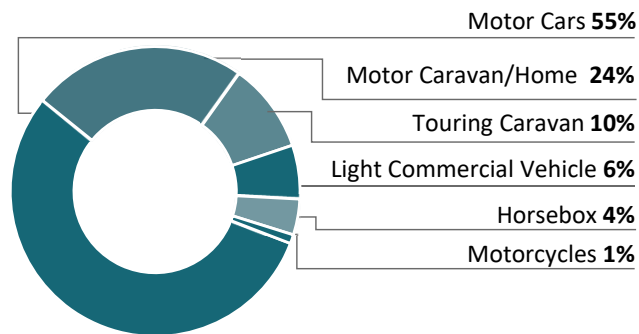
(£000's)Sub	31 March 2020	31 March 2019	30 September 2019	Comments
<b>Assets</b>				
Cash and balances at central banks	12,246	2,882	7,371	
Loans and advances to customers	400,856	275,710	338,503	
Available for sale financial investments	20,128	27,491	19,638	
Property Plant and Equipment	3,168	292	579	IFRS16 – operating leases
Goodwill and other Intangible assets	5,968	5,437	5,941	
Deferred tax assets	1,138	1,287	1,105	
Trade and other assets	3,258	5,856	4,932	
<b>Total assets</b>	<b>446,762</b>	<b>318,955</b>	<b>378,069</b>	
<b>Liabilities</b>				
Due to banks	30,483	52,028	44,412	
Due to customers	339,853	203,754	267,070	
Subordinated debt	5,000	-	-	
Derivative financial instruments	56	-	63	
Trade and other liabilities	11,111	7,593	7,769	
<b>Total liabilities</b>	<b>386,503</b>	<b>263,375</b>	<b>319,314</b>	
<b>Net assets</b>	<b>60,259</b>	<b>55,580</b>	<b>58,755</b>	
<b>Annualised ROE</b>	<b>6.8%</b>	<b>11.7%</b>	<b>13.6%</b>	
<b>CET1 Ratio</b>	<b>17.0%</b>	<b>19.7%</b>	<b>18.0%</b>	
<b>Liquid Coverage Ratio (LCR)</b>	<b>1,182%</b>	<b>1,259%</b>	<b>553%</b>	

# Portfolio Analysis as at 31 March 2020

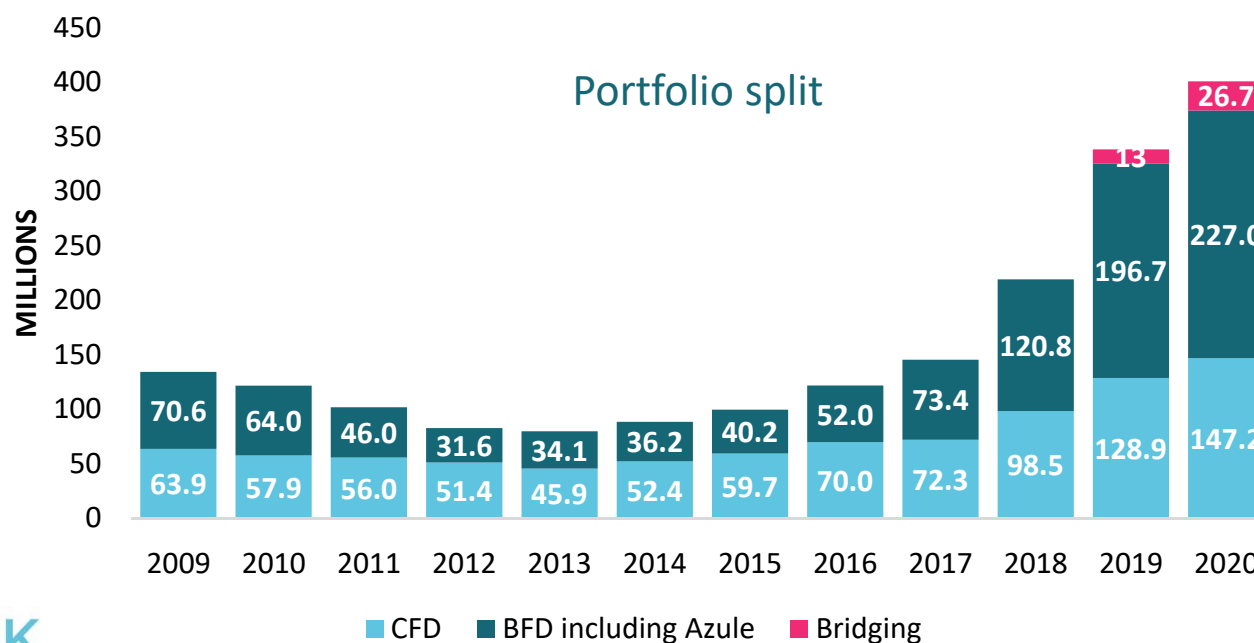
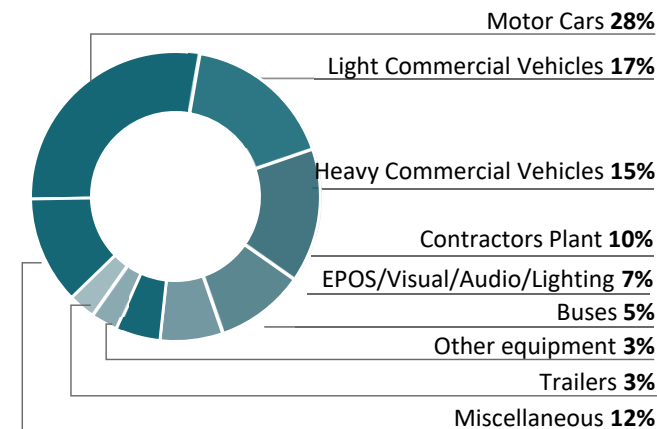
## Combined Summary-Assets Financed



## Consumer Finance Division-Assets Financed



## Business Finance Division-Assets Financed

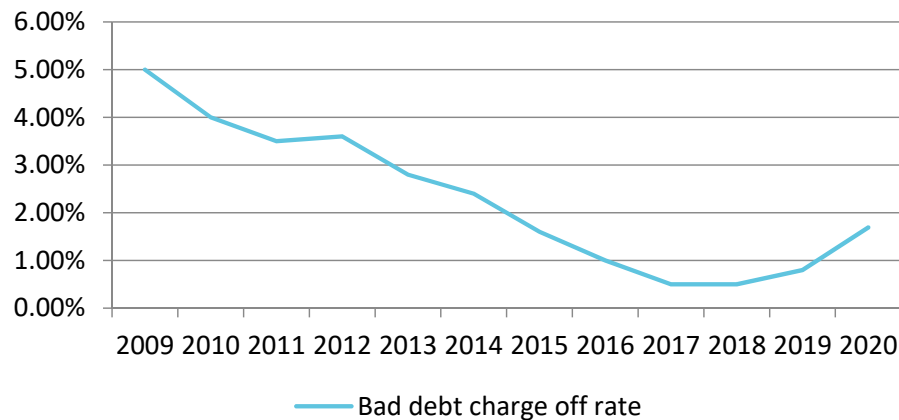




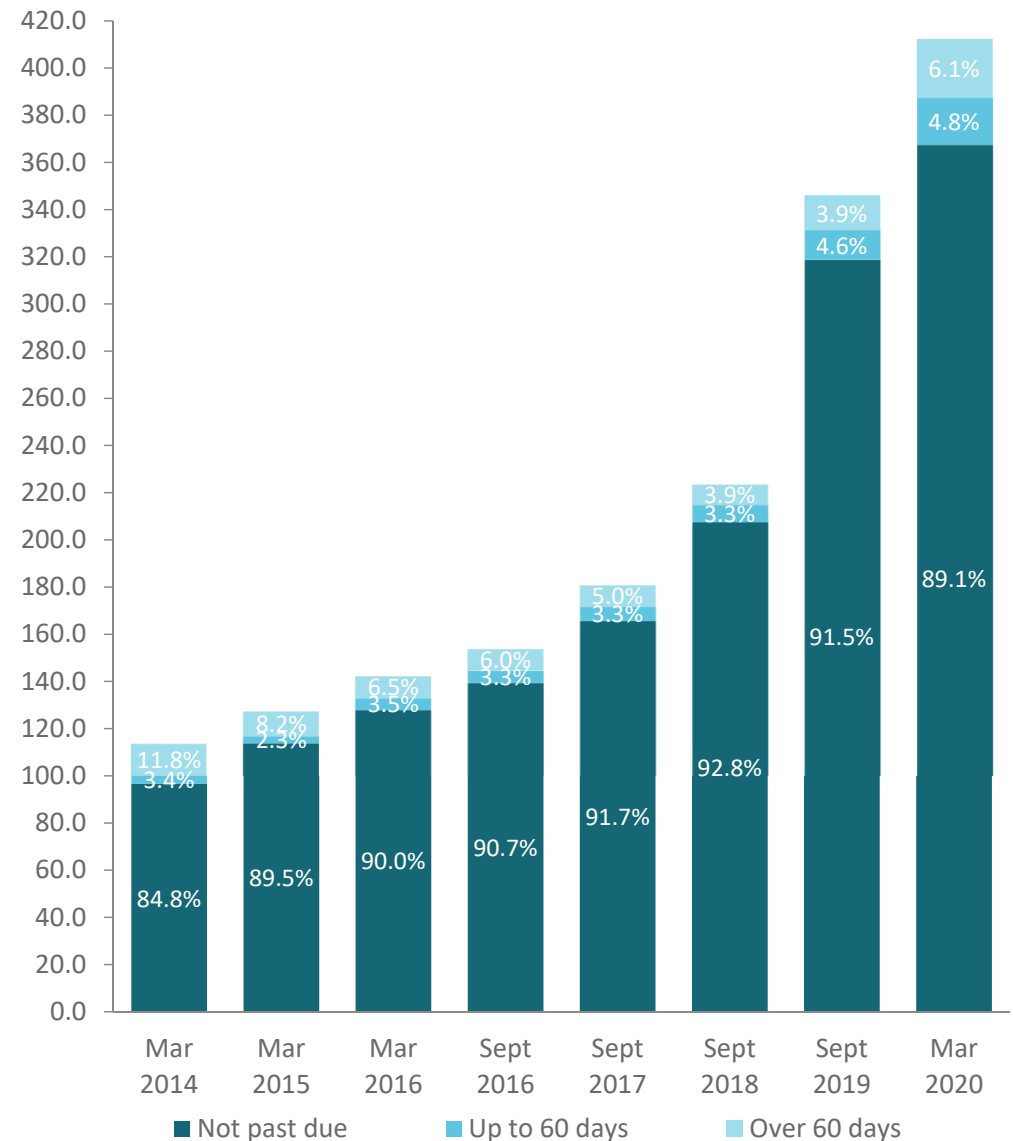
# Credit Quality

- Prescriptive underwriting criteria for risk, asset quality and valuation
- Lending criteria tightened and quality targets increased from 75% to 90%
- 80% of originations in the period was in our top four credit grades (2019: 74%)
- Over 60 days portfolio is stable in relative terms
- Small average transaction size provides a wide spread of risk

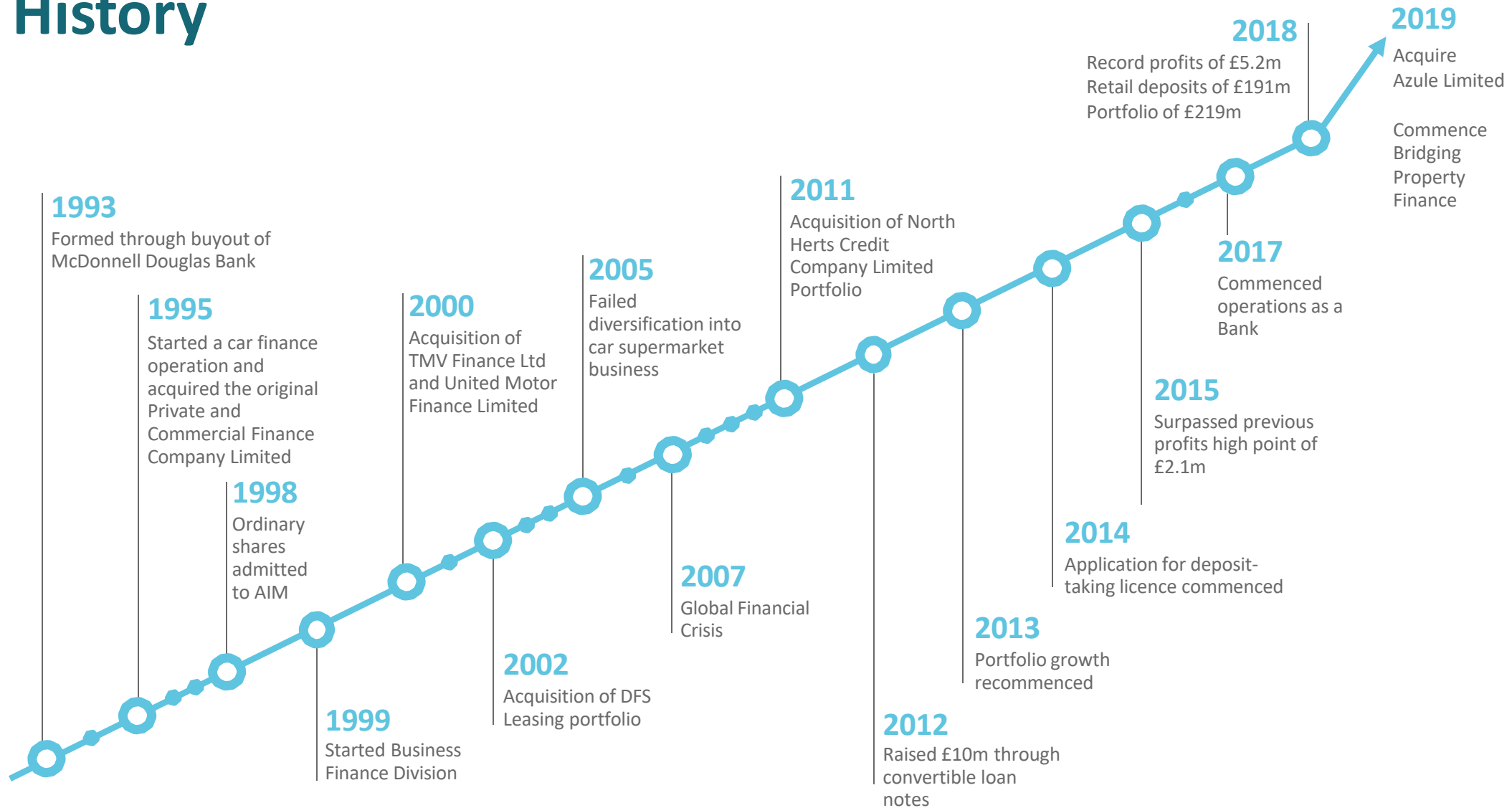
## Bad debt charge off rate



## Loan Book – Gross (£m)



# History



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# The Board

## Tim Franklin

**Non-Executive Chairman**  
Appointed on 06 December 2016

Tim has extensive experience in the financial services industry, having worked for over 30 years in the retail banking and building society sectors. Tim served as a non-executive director of the Post Office for 7 years until December 2019 and remains Chairman of Post Office Insurance. Additionally, he is a non-executive director of Computershare Loan Services. Tim is an Institute of Leadership & Management Level 7 Coach and works extensively with senior executives across many industries, both in the UK and internationally. In addition, he is an Associate of the Chartered Institute of Bankers.

Tim is a member of the Nomination Committee and Remuneration Committee

## David Morgan

**Non-Executive Director**  
Appointed 09 July 2012

David has over 35 year's experience in international banking, building his career at Standard Chartered Bank in Europe and the Far East. Since leaving Standard Chartered in 2003, he has been involved in a range of business advisory and non-executive roles. He is currently a non-executive director of Somers Limited, Bermuda Commercial Bank Limited and Waverton Investment Management Limited. He is also Chairman of Harlequin FC, the Premiership rugby club.

David is a member of the Audit & Risk Committee, the Nomination and Remuneration Committee.

## Christine Higgins

**Independent Non-Executive Director**  
Appointed 13 June 2017

Christine is a Chartered Accountant with over 25 year's experience in asset finance, for UK and international banks. Over the last 9 years, she has served as a non-executive director on a number of boards in the health, housing, leisure and finance sectors, including as chair of the audit committee. She is currently a non-executive director of Buckinghamshire Building Society and chairs its audit committee and is a Trustee at Refuge.

Christine is the chair of the Audit & Risk Committee and a member of the Nomination and Remuneration Committee.

## Mark Brown

**Non-Executive Director**  
Appointed on 01 December 2015

Mark was Chairman of Stockdale Securities from November 2014 until it was bought by Shore Capital in April 2019. He was previously Chief Executive of Collins Stewart Hawkpoint and brings a wealth of experience and leadership in both small and large financial services business. Having worked as Global Head of Research for ABN AMRO and HSBC and as Chief Executive of ABN's UK equities business, Mark led the successful turnaround of Arbutnot Securities followed by Collins Stewart Hawkpoint.

Mark is a member of the Nomination Committee and the Remuneration Committee.

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# The Board

## David Titmuss

**Independent Non-Executive Director**

**Appointed on 11 July 2017**

David has over 25 years' experience in both large and small financial services organisations, with a particular emphasis on customer acquisition and database management. His corporate background includes working at a senior level in public and privately backed businesses. David has direct experience of credit decisioning and debt collection for companies and consumers gained from holding senior roles in the finance industry. He has also led companies both as CEO and as a board director. Latterly David headed the marketing function of [webuyanycar.com](http://webuyanycar.com) and is recognised as an expert in digital marketing and advising businesses on cost effective customer acquisition.

David is the chairman of the Nomination Committee and Remuneration Committee.

## Marian Martin

**Non-Executive Director**

**Appointed on 25 July 2019**

Marian Martin is a chartered accountant with a background in risk management and audit. Most recently, Marian was at Virgin Money for 11 year's and was Chief Risk Officer throughout a period of significant growth and strategic development of Virgin Money and its risk function, including its successful listing on the London Stock Exchange. Marian was an Executive Director of the main trading companies of the Virgin Money group during this period. In addition, Marian is a non-executive director at Castle Trust and Starling Bank.

## Scott Maybury

**Chief Executive ('CEO')**

**Appointed on 12 January 1994**

Scott holds a degree in business studies and is a qualified accountant. He spent six years with BHP-Billiton, Australia's largest multi-national corporation, and five years with McDonnell Douglas Bank. He is one of the founding directors of PCF Group plc and was previously Finance Director until October 2008.

## Robert Murray

**Managing Director ('MD')**

**Appointed on 19 October 1993**

Robert holds the ACIB Banking Diploma and has over 40 year's banking and finance experience. He has extensive experience in both lending to personal, corporate and international customers. He is one of the founding directors of PCF Group plc.

## David Bull

**Finance Director ('FD')**

**Appointed on 03 August 2015**

David holds a first class degree in Mathematics and Statistics and is a qualified chartered accountant. After qualifying in 1996 he has worked in the Banking sector across a number of institutions including KPMG, Deutsche Bank and was interim Chief Financial Accountant at the Bank of England. Before joining PCF Group, David was a Director of Finance and Company Secretary at Hampshire Trust Bank plc, the specialist challenger bank where he was instrumental in setting up their banking operations.

# Competitive Environment

## Consumer Finance



Close Motor finance



## Business Finance



Hitachi Capital



Hitachi Capital

